

US Agency for International Development Study of Innovative Practices in SME Finance



Case Study: SAIBL (South Africa) ***Building Partnerships to Drive SME Growth***

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Background

This paper is part of a six-study series that was conducted by the U.S. Agency for International Development (USAID), with assistance from Deloitte Touche Tohmatsu. The purpose of the study series is to identify and document innovative practices in SME financing. The information for this study was obtained from on-site visits and interviews with management of each of the organizations. The interviews were conducted by Suzanne Nolte Saunders of USAID's Economic Growth, Agriculture and Trade Bureau, Office of Economic Growth, with assistance from Teresa Mastrangelo of Deloitte Touche Tohmatsu for the Uganda and South Africa cases and from Maribeth Murphy of Deloitte Touche for the Chile case. For more information on the overall series or to find the other study documents, please go to http://www.usaid.gov/economic_growth/egat/eg/tech-financial

Acknowledgements

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List of Selected Interviews:

- William Brands, USAID/Pretoria
- Dirk Dijkerman, Mission Director, USAID/Pretoria
- William Grant, Ebony Consulting International
- Gloria Mambo, USAID/Pretoria
- G.P. (Sonny) Tarr, Ebony Consulting International, Chief of Party, SAIBL Project

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I. Introduction

The United States Agency for International Development (USAID) mission initiated its South African International Business Linkages (SAIBL) program to generate employment for South Africans through fostering business relations between historically disadvantaged firms and their established corporate counterparts. This study consists of a review of the program, its approach, and its results, as well as a commentary on its effectiveness.

SAIBL is supported by a Cooperative Agreement between from the U.S. Agency for International Development and the Corporate Council on Africa (CCA). CCA works via a sub-contract with its South African partner, Ebony Consulting International (ECI), to implement the program. SAIBL started in 1998 as a three-year program and has been recently extended to 2004. The purpose of SAIBL is to build the capacity and competitiveness of historically disadvantaged small and medium enterprises (SMEs) through trade and investment partnerships with domestic and international (primarily U.S.) companies. Historically disadvantaged people comprise 89% of South Africa's population.¹ Given the history of apartheid, bringing economic opportunity to this population is a key priority for the South African government and its partners.

In that SAIBL is not explicitly an SME financing initiative, this case is a slight departure from the others in this study. The South African mission had spent over a decade from 1987 to 1998 implementing programs to grow microfinance institutions, village banks, credit unions and business development services. These programs fell short of the mission's objectives while the constraints to success remained. The mission management saw that the four major South African banks' risk aversion continued to inhibit their moving down market to serve SMEs. Also, the SMEs themselves lacked a strong spirit of entrepreneurship, due in part to the stifling effects of apartheid and the country's subsidy-driven mentality². Although the finance initiatives did address poverty on a small scale, the mission's priority of reducing unemployment from the 25-30% range caused it to shift to working more directly with SMEs in order to grow them and generate productive employment. Given this background, we included SAIBL in our overall study to illustrate how the SME financing problem can be tackled from another angle, that of strategic partnerships.

II. Program Summary

SAIBL is a third generation program designed to foster business relations between historically disadvantaged firms and established corporate counterparts. The earlier activities provided assistance to SMEs for franchising, mergers and acquisitions, managing tenders, and compliance with statutory obligations. These programs

¹ Statistic taken from <http://www.africacncl.org/linkages/saibl.htm>.

² For an extensive discussion on entrepreneurship in South Africa, see the "Global Entrepreneurship Monitor: 2001 South African Report," by A. Driver, E. Wood, N. Segal and M. Herrington. November 2001. <http://www.gemconsortium.org>.

demonstrated that aligning historically disadvantaged-owned firms with partners that offer them access to expanded markets, references, technology is very effective in making the firms bankable and better positioned for growth. Many of the clients of the earlier initiatives were brought into the SAIBL program.

SAIBL includes the following key activities:

Transaction Brokerage Services - Linking historically disadvantaged South African firms with domestic and international (primarily U.S.) partners. SAIBL's business development network across the U.S. and South Africa works closely with companies as they research and assess market opportunities, and identifies and screens appropriate partners. SAIBL assists small and medium-sized South African businesses to access markets in the United States and elsewhere in Africa, and American companies to expand commercial ties to South Africa.

Support Services - Providing training and technical assistance to prepare and support South African SMEs for domestic and international business transactions. SAIBL provides South African enterprises with technical assistance funding on a 50 percent cost-sharing basis. Support to individual firms must be clearly linked to a market opportunity. Activities cover the full range of business disciplines, from product development and packaging to business plan preparation, financial management, ISO certification, human resources management, and business development via such activities as funding travel to the U.S. for participation in trade and industry shows or meeting with U.S. Companies.

Technology Transfer - Facilitating technology transfer through business partnerships, manufacturing licenses, franchises, and other means.

SAIBL was originally planned as a three-year, \$3 million program. Through two extensions, it has grown to a six-year \$8 million program. The most recent extension, which occurred in June 2002, added some notable new activities and increased the budget from \$4.5 million to \$8 million. The new SAIBL components focus on regional trade between SADC and South Africa, Promoting Agriculture Linkages (PAL), and facilitating AGOA linkages between the U.S. and South Africa.³ These new components are valuable in their response to trends associated with regional trade and the AGOA initiative, as well as the challenge of linking small agricultural producers to larger more constant markets. Due to the more recent nature of these projects, however, this case does not include a review of these new initiatives.

³ See the SAIBL web page for more information on these new components, www.africacncl.org/Linkages/saibl.asp.

III. Results

SAIBL has had remarkable success in providing business services and marketing linkages to historically disadvantaged SMEs. Almost four years into the project (as of June 2002), SAIBL has achieved the following results⁴:

Table 1: Summary of Results

Business Transactions Facilitated <ul style="list-style-type: none"> • Contracts • Equity/ Quasi Equity (9 partnerships) 	\$185 million total \$127 million \$58 million
Number of Historically Disadvantaged Firms Obtaining Contracts via SAIBL	116
Jobs Created or Preserved (since December 2000)	5,156
Firms Participating in Training Seminars	2,548
Instances of Technology Transfer	29
Firms Receiving Technical Assistance	137

Source: CCA's Quarterly Report Number 15 (April to June 2002)

In looking at the above results and their impact on women-owned firms, of the 5,156 jobs created or preserved, 2,036, or 40%, were with women owned firms, and of the \$268,247 in technical assistance, \$66,109 was paid to women owned firms. The leverage achieved from the \$66,109 spent by SAIBL, or contributions received by these firms from other places, was \$300,160, which represents 40% of the total recipient contribution. There have been 65 instances of assistance to women owned firms, with some of them going to the same firm. These figures demonstrate that the program has been very effective in benefiting women owned firms.

A sampling of how the SAIBL initiative spurs partnerships is included below:

- SAIBL assisted a female owned business in South Africa to secure two multiyear contracts of R 7.5 million (\$937,000) and R 27 million (\$2.7 million) for the supply of aluminum spindles used in car safety belts to a first tier supplier to Ford Motor Company. SAIBL provided 50% of the training costs for the company to obtain ISO 9002 accreditation, which was a requirement for the contract. SAIBL also sponsored

⁴ These numbers come from CCA's Quarterly Report Number 15 (April to June 2002).

visits for the factory owner to the SEMA Show in the U.S. in 1999 and 2000 which is where she met procurement officials from Ford Motor Company.

- In 2001, SAIBL sponsored partial costs for a visit to the U.S. for the Managing Director and Technical Director of a South African firm manufacturing components for the mining industry. SAIBL also contributed to this firm's payment for the registration of the worldwide patent for a component to be used in the mining industry. The visit resulted in an investment by a U.S. company of R160 million (about \$15.4 million) for the building of a factory in South Africa. The joint venture agreement was finalized and the international company structured. The new company has signed five supply agreements totaling R69 million per annum (about \$6.6 million per annum), and a \$15 million deal with Alcoa, the world's largest aluminum producer.
- SAIBL co-sponsored a business plan and strategic marketing plan for a South African information technology firm, who then secured a major contract from the SA Department of Transport. The contract is worth in excess of R70 (about \$6.6 million) million. Approximately R50 million of this will be spent on U.S. computer equipment.
- A Black Economic Empowerment (BEE) company that manufactures and repairs locomotive components has imported and exported \$1 million worth of locomotive parts to a Texas based company.
- A South African trade and services company imported locomotive parts in excess of \$350,000 from Michigan based General Motors, for distribution to the South African government.
- SAIBL arranged a meeting between the Embassy of South Africa and representatives from Specialty Equipment Manufacturing Association (SEMA) in Washington, DC. The meeting was focused on how South Africa should be involved in SEMA Trade Show. This will be the 3rd year for SAIBL representatives and some of its SME partners to participate in this show.

Some smaller company transactions have included:

- A woman-owned Pretoria chocolate manufacturer was assisted by SAIBL to develop a strategic marketing plan and brochure which helped it to secure an order from the U.S. Embassy for \$2,000.
- SAIBL sponsored a trip for a Cape Town outdoor furniture manufacturer to go to the U.S. to explore market opportunities for its thatch and bench units. During the trip, the manufacturer secured various contracts which brought its 2002 first quarter sales up to \$50,000.
- SAIBL assisted a woman-owned jewelry manufacturing company, on a cost-sharing basis, with the development of a marketing strategy. This strategy helped her land a contract with a large jeweler who owns 18 stores countrywide to produce all of their platinum and eighteen carat gold diamond and gem work. The initial order for R600,000 (about \$55,000) was the beginning of a promising partnership.

Through the above examples and other SAIBL transactions, the project has helped firms generate working capital internally which reduces their need for outside financing, by:

- Helping firms find equity partners.

- Helping firms gain contracts with reputable corporations, which cause the banks to be more amenable to lending to them.
- Helping firms finance growth internally by growing their profits and profit margins from securing contracts with bigger and more sophisticated clients.
- In a few cases, working out deals where the SME does not pay for its raw materials, but then receives only part of the total amount invoiced from its corporate customer who pays the supplier directly for the inputs.

IV. SAIBL Operating Procedures

CCA, in partnership with ECI, is implementing SAIBL. The project funds staff and technical assistance to firms, and includes the use of the Technical Administrative and Management Information System (TAMIS)⁵. The staff members have many years of experience working in South Africa on business development programs. They spend a considerable amount of time networking with local and business groups and government representatives to communicate the SAIBL program and identify and connect potential participants, both on the supply and demand side. SAIBL often hosts meetings to attract SMEs and their potential partners in the form of:

- Launches, where the staff members describe the program, announce new programs, or announce program extensions;
- Outreaches, which are specifically targeted to female-owned businesses;
- And seminars, which include talks on export opportunities, market strategy, drafting of business plans, or other subjects which are informative to their clients.

Added to these meetings, the SAIBL team often presents at government, donor and association meetings. In the U.S., CCA works with its domestic partners and CCA members to inform and find companies interested in trading with South African companies. Interested U.S. companies fill out a SAIBL Questionnaire form, which lists each company's request, market background, form of payment, and detailed information on its management structure.

The TAMIS system is used to track and categorize the companies that SAIBL is working with as well as the usage of the technical assistance funds. Some of the categories that TAMIS tracks include:

- Historically Disadvantaged Firms
- Corporations Seeking Business Partners
- Service Providers – used to implement technical assistance
- Non-historically disadvantaged SMEs

The majority of SAIBL clients come from the training and networking mentioned above, from the two prior linkage projects, and from references from SAIBL's informal partners, such as PERMAC (Port Elizabeth Region, Manufacturing Advisory Centre), COMSEC (Community Self-Employment Centers), and NAMAC (National Coordinating Office For Manufacturing Advisory Centres).

⁵ For more information on this tracking and management system developed by Development Alternatives, Inc. (DAI), please refer to the web page: <http://www.dai.com/tamis/tamis.htm>.

For a business to qualify as a SAIBL client, it has to meet the following criteria:

- Be owned at least in part by historically disadvantaged persons and have the persons play a material role in its management;
- Be registered for tax, VAT and other statutory obligations;
- Have sufficient productive capacity or the ability to expand to meet additional demands;
- Have a strategic business plan or be willing to develop one;
- Be willing to undergo and share the cost of training, if necessary;
- Pass a financial statement review by SAIBL.

If the SME meets the criteria above, it can be registered into SAIBL's database at no charge. From there, the SME is in the position to request assistance. These requests must be accompanied by a comprehensive rationale and justification that specify the expected impact from the intervention, usually in terms of increased turnover and/or employment.

The types of assistance available from SAIBL on a cost sharing basis are listed below.

- Marketing assistance for particular events
- Research (feasibility studies, market research)
- Development of business and marketing plans
- Preparation and submission of tenders and proposals to become a supplier
- Training according to specific need
- Funding for the attendance at exhibitions and conferences where appropriate, including visits to the USA
- Certification and licensing
- Identification of appropriate service providers
- Quality certification, e.g. ISO 9002, QS 9000 and VDA 6

SAIBL uses formal processes to review the requests, assess the expected benefits, ensure all the appropriate documents are submitted, and determine whether to approve the request for assistance. SAIBL managers do not approve expenditures for technical assistance unless a SAIBL team member has visited the client to confirm the correctness of the information given on the registration form.

Once an application is formally approved, a business linkage coordinator will draw up a contract between SAIBL, the SME and the service provider and include the roles and responsibilities of all parties to the agreement. SAIBL does not make any advance payments to service providers. SAIBL also requires that the technical assistance funds not be used as debt or equity finance or be applied to fund any assets or costs of working capital. SAIBL will contribute to the cost of any particular intervention on a cost-sharing basis, which is typically a 50-50 arrangement or less if there are other contributors to the intervention. Any leverage provided through additional contributors will improve the likelihood of SAIBL support. As of the June 2002 report, SAIBL clients have received additional contributions to supplement the SAIBL funds of \$745,048, which compares to \$268, 647 paid out by SAIBL. The SAIBL team frequently approaches potential

contributors, such as the SA Department of Trade and Industry, the Tourism Enterprise Project and others to leverage SAIBL's contribution and increase the assistance to the SME. SAIBL only pays the service provider after the SME client has paid their share, and the SME receiving assistance from SAIBL must agree to provide SAIBL with sales and employment data on a quarterly basis.

Since the needs of all SMEs differ, the services paid for by the technical assistance fund can be customized to address the specific needs of each business. The project management considers the technical assistance fund the "secret weapon" of the SAIBL project. Even though the clients have to share in these costs, SAIBL's assistance helps clients to overcome obstacles that may preclude them from securing contracts awarded by corporations, parastatals, and departments of all levels of the SA government.

V. Commentary

Strengths of SAIBL

The SAIBL program has had extraordinary results. As of June 2002, the SAIBL project preserved or created 5,156 jobs and stimulated \$185 million in investments and sales, with 40% of the jobs going to women owned firms. To achieve these results, USAID spent \$2.9 million, producing the following yields: every \$1 spent by the project generated \$63 of new investment, and every \$565 spent created or preserved one job. As part of the business partnerships, technology transfers have taken place in 29 of the SMEs and over 2,000 companies have received business training.

In addition to these quantitative results, SAIBL has grown the SA consulting industry through its use of CCA and ECI and all the technical experts providing technical assistance. ECI and CCA have made it a priority to groom and use BEE consultants and use them to provide consulting services to SAIBL's clients, thus adding diversity and size to the consulting industry. In addition, because of the required cost sharing for the technical assistance, the project is helping to build a culture of paying for consultants.

SAIBL is notable in how it has taken advantage of one of the main dynamics of the South African economy, the presence of both highly industrial areas and highly skilled labor and poorly developed communities and poorly trained labor. Unlike in most developing countries, this presence of modern manufacturing and service industries provides a local engine for growth for small businesses that can supply quality inputs. Given that the smaller and medium sized companies still need some way to increase their sophistication to be able to supply to these bigger companies, SAIBL is a timely program.

SAIBL also has attracted very dedicated and experienced staff. The team members have the necessary business and government relationships, as well as strong business and interpersonal skills to facilitate productive business linkages. They have been committed to responsive reporting, which enables the project to accurately track its results. In addition, both the staff of SAIBL and the mission management have done an excellent

job of incorporating what worked and did not work in the prior two linkage programs into the design of the SAIBL program.

Market Development and Sustainability

With linkage programs in general, there are often questions as to the extent of their impact and their sustainability. Does SAIBL extend beyond providing direct assistance to clients and stimulate market development for business development services? As part of this question, does the presence of SAIBL as a subsidized program crowd out or encourage new entrants into the consulting services market? Regarding sustainability, does the SAIBL program develop sufficient “capacity to ensure that benefits continue beyond the period of an initial intervention”.⁶

Market Development

SAIBL has helped stimulate the market for linkage and consultant services on the demand side by:

- Introducing SMEs to the value of consulting services.
- Demonstrating to SMEs that these services are worth paying for, at least on a 50% cost-sharing basis.
- Increasing SME’s awareness of the need to network and boost their operating sophistication in order to attract bigger clients.
- Stimulating the demand for linkage services from large corporations seeking to work with SMEs.

SAIBL has also stimulated market development on the supply side by:

- Enabling the local consulting firm, ECI, to develop its capacity for providing linkage and other consulting services.
- Stimulating growth in the supply of for-profit consultants.
- Demonstrating to consultants that SMEs represent a good market opportunity and are reliable clients, hopefully resulting in increased competition and lower prices.

However, could SAIBL be more effective in increasing the supply of consultants by taking a more wholesale approach? This approach would entail focusing purely on developing consulting capacity in the economy, and then relying on these consultancies to provide linkages and technical services to SMEs. SAIBL does contain an element of this wholesale approach in its building of a cadre of consultants that provide technical assistance to SAIBL’s clients. However, when it comes to the provision of linkage services, the South African government and other donors are already driving an increase in the number of firms providing these services with the subsidies coming from the Black Economic Empowerment program. The benefit of this is that SMEs will have more opportunity to increase their sophistication. The risks are that subsidizing firms to provide free linkage services may produce inefficient consulting firms, and it will be

⁶ Taken from “BDS Market Development: A Guide for Agencies on the Emerging Market Development Approach to Business Development Services” by Alan Gibson, Rob Hitchins, Marshall Bear, page 26. June 2001.

harder to get the SMEs to start paying for linkage services as long as they are free. Given these dynamics, a more wholesale approach does not appear to be warranted.

With respect to the “crowding out” risk, in an environment where subsidies for linkage services are prevalent, there definitely is little potential for growth of a sector of non-subsidized firms offering similar services. The competition is more for donor and government funds than for market share of clients. This approach is obviously distortionary but may be justified by the urgency to quickly grow and increase the operating capacity of the SME sector.

Sustainability

The SAIBL project itself was not meant to become self-sustaining, but to provide immediately needed services to SMEs. However, as mentioned above, the project has resulted increased the capacity of the local firm, ECI and of local consultants. Regarding benefits, a positive trend has occurred wherein SAIBL clients have secured incremental deals in addition to the initial ones that were facilitated by SAIBL. This ability of clients to secure additional contracts without SAIBL’s assistance is evidence that benefits will continue to emanate from the project even after it is over. As far as the continuity of SAIBL services in the event of donor withdrawal, this depends on the development of the SME sector and government policy. ECI could try to reduce subsidies on the consulting services by using a tiered fee structure that requires the more profitable SMEs to pay more than 50% for technical assistance. However, the majority of the SMEs are still developing basic business skills, especially the BEE firms that have only been able to operate since the end of apartheid in 1994. These firms will not be able to fully pay for linkage and consulting services themselves for a while. And, as long as there are subsidies to provide these services free or below cost, the SMEs will not pay for them.

Outreach

The SAIBL team is only able to reach a small percentage of firms requiring assistance in building relationships with larger clients, especially when it comes to firms in big cities outside of Johannesburg. As we discussed above, a more wholesale type of approach does not suit the current market conditions. It may be worthwhile to expand the program to offices in other cities, depending on the cost and the presence of other firms providing similar services.

Strategic Framework

Under the current framework, there is no certainty that the businesses that are being assisted by the SAIBL program are necessarily in the most competitive sectors or have a comparative advantage, which may cause them viability issues in the long-term. It would be worthwhile to assess whether this program might be more effective if it were a component of a more fundamental competitiveness initiative that focuses on growing productivity through the development of industry clusters. Many of SAIBL’s activities do result in increased cohesion and information sharing within clusters, but they do it in the absence of a broader effort to empower established and emerging clusters to grow their productivity.

VI. Conclusion

It is obvious that SAIBL has had a positive impact on South African SMEs. It is difficult to compare its impact to that of other donor programs, such as the 'dollars required per job created', since these are not consistently used as performance criteria, or, if they are, they are not easily accessible. And, it would require a whole other study to compare the impacts of this program to a similar investment in a totally different type of activity.

However, as has been laid out above, the SAIBL program responds to local needs and is able to promote private sector development while also responding to government priorities. It addresses head-on the urgency to increase employment and empower formerly disadvantaged groups in South Africa. And, it positions participants to develop their business skills, grow their businesses, and become tomorrow's business leaders as they find new markets in Africa and abroad. The program is effective in growing the market for consulting services and does yield sustainable results in the form of increased consulting capacity and sophistication of SMEs.

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